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Payments, Sovereignty, and Critical Infrastructure: The Strategic Case for the Digital Euro

SAFE Letter No. 112 | March 2026

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Payments, sovereignty, and critical infrastructure: The strategic case for the digital euro*

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March 2026

Key Takeaways

- The digital euro should be understood as critical payment infrastructure, not as a new payment product. In a more fragmented geoeconomic environment, control over payment matters for monetary sovereignty, resilience, and legal certainty.
- The relevant policy choice is not between state and market. A digital euro would preserve a two-tier model in which the ECB provides the public infrastructure and digital central bank money while banks and payment service providers handle customer-facing services and innovation.
- Stablecoins and private payment initiatives can complement, but not replace, the digital euro. They do not provide the same combination of universal acceptance, public backing, competitive neutrality, and sovereign control over settlement infrastructure.
- A strong digital euro requires both online and offline functionality. Offline use is important for resilience and privacy. Proposed online-only or offline-only compromises would weaken the project's strategic value.
- Delay is costly. Prolonged legislative uncertainty undermines the EU ambition of strategic autonomy. The European Parliament should stick to its schedule and vote on its negotiating position in May 2026, so that implementation could begin in 2027.

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Abstract

After years of investigation, the digital euro project has entered the legislative stage. Geoeconomic developments, especially the full-scale invasion of Ukraine in 2022 and the following regime of sanctions against Russia, as well as the economist-nationalist policies of the second Trump administration, have reinforced arguments for EU monetary and infrastructure sovereignty. At the same time, however, the digital euro project is under pressure from private solutions, stablecoins and the European Wero initiative that claim to provide similar benefits as the digital euro. While these may develop into useful tools for payments, they fail to provide the same features, such as universal acceptance and legal certainty, competitive neutrality, and – crucially – EU sovereign control over settlement infrastructure. This Policy Letter calls upon EU policymakers to reject the false dichotomy between private solutions and a public infrastructure and to make swift progress on the legislation and implementation of the digital euro.

I. Digital Euro – state of play

In reaction to the emergence of digital assets, such as Bitcoin and Meta’s Libra project, central banks across the globe started to explore possible designs and distribution of Central Bank Digital Currencies (CBDCs). According to the Atlantic Council’s CBDC tracker¹, 137 countries had at least initiated a CBDC project. Furthermore, many large economies worldwide have introduced digital payment systems that have been created by central banks, such as the Unified Payments Interface (UPI) in India or Pix in Brazil which serve many yet not all functions of CBDCs. In 2020, the European Central Bank (ECB) launched the investigation phase of the digital euro project. This exercise was sparked in part by the announcement of Meta’s Libra ²³. The rise of geopolitical tensions following the full-scale invasion of Ukraine and the re-election of Trump have reinforced the sovereignty narrative in favour of the digital euro among ECB policymakers. A Bank of International Settlement (BIS) Survey in 2024 found that about 90 percent of surveyed central banks were still investigating a CBDC⁴. However, it may seem to some observers that the time for CBDCs is already over before it has really started, as 2025 has seen a countermovement to central-bank-issued digital money. The Trump administration published an Executive Order in 2025, prohibiting the Federal Reserve or any other federal agency from issuing digital cash.

¹ [Central Bank Digital Currency Tracker - Atlantic Council](#).

² Libra (later renamed Diem) was a private global digital currency project announced by Meta (Facebook) in 2019, intended to facilitate cross-border payments through a stablecoin backed by reserve assets. The initiative triggered strong regulatory opposition due to concerns about monetary sovereignty and financial stability and was ultimately abandoned in 2022.

The digital euro project, too, faced criticism from policymakers and industry representatives as it entered a crucial point of development for lack of unique use case. After several years of technical exploration and design work by the ECB, the European Commission proposed legislation in 2023. The Council of the EU agreed on its negotiation mandate in December 2025, while the European Parliament currently discusses a first draft with a vote on the final resolution expected for May 2026.

Recently, two developments have led to some questions on the need for a digital euro: The emergence of stablecoins (almost exclusively backed by US Treasuries so far) as an alternative means of digital payment, supported by the GENIUS Act as an explicit market-based alternative to a CBDC, and the rollout of Wero as a European bank-based payment system. The latter was further strengthened by the collaboration between the European Payment Initiative (EPI) and the European Payment Alliance (EurPa), announced in February 2026. Against this background, this Policy Letter argues for the digital euro as a critical infrastructure, necessary for European strategic autonomy in a geoeconomic world, and helpful for fostering competition in the European payment market. It contributes to the debate in four steps: First, it explains the current design proposal for a digital euro in non-technical terms; second it compares the digital euro to two possible alternatives which are sometimes presented as functional alternatives, namely stablecoins and a private bank-based payment infrastructure built and supported by European banks and payment providers; third it takes stock of the respective political mandates and proposals by European legislators with a focus to their differences. Finally, it calls upon European and national policymakers to swiftly create the legal fundamentals for a broad and strong digital euro, usable both offline and online, as further delay would only weaken Europe’s strategic sovereignty in payments. A credible and robust digital euro is needed to retain monetary sovereignty, payment infrastructure security, and citizen access to central bank money.

II. What problem is the digital euro meant to solve — and for whom?

“Why do we need the digital euro?” This is one of the most frequently asked questions about the project. Transactions between and across the EU are already digitalized, so that the added value often remains dubious. This section shows that the digital euro, and CBDCs in general, are not a fix to single problem but instead the solution to a structural weakness in the European payment system. As a form of CBDC, a broad category encompassing different institutional and technological designs, it combines two key elements. First, it introduces digital *central bank money*, “digital cash” as a digital offline-compatible representation of physical central bank money, coins and bank notes, whose use by European citizens decreases. Second, it creates an EU-controlled *payment infrastructure* which aims to shield European payment from foreign interference, while integrating European markets at the same time.

First, “digital cash”: Until now, the only form of central bank money available to the general public has been physical cash. Digital money held in bank accounts and used to make transfers between households and firms is created by banks and, as ECB surveys show, has become the most-used form of payment for EU citizens, with cash only accounting for 24% of day-to-day payments in 2024 (ECB, 2024). A digital euro would extend this public form of money into the digital sphere. Unlike crypto-assets such as Bitcoin and stablecoins, a digital euro would not be a private claim backed by assets, but central bank money itself – thus combining digital functionality with the security and legal certainty of public money. It can not only be used for online transactions but also offline. This refers to the ability to make payments without an active internet connection, using secure hardware on devices such as smartphones or payment cards. In this mode, transactions would be stored locally and settled directly between payer and payee, similar to cash, ensuring privacy and resilience in case of network outages. Importantly, digital money, created by banks, would not cease to exist. Neither would the financial intermediaries, banks and non-banks alike, themselves. From time to time, debates around the digital euro feature the false impression that in such a regime, every European citizen would get a bank account with the ECB, making private banks obsolete. However, there is an important distinction between a single-tier (fully built and operated by the ECB) or a two-tier (built and operated as a public-private partnership) payment infrastructure model for a CBDC. In a single-tier model, the central bank issues the digital currency directly to end users and manages central bank accounts of households itself. However, most current CBDC projects, including the digital euro, are based on a two-tier model. In this framework, the central bank issues the digital currency, but supervised intermediaries, such as commercial banks and payment service providers, are responsible for managing transactions, providing user interfaces (such as apps or cards), and acting as the link between users and the device or wallet storing the digital euro. This model builds on existing financial infrastructures and preserves the role of private intermediaries in the payment ecosystem. At the same time, the system is designed to ensure high standards of privacy and data protection, with the objective that intermediaries do not gain access to users’ transaction data beyond what is strictly necessary for regulatory compliance. Hence, households would have the option to hold some deposits on their accounts in digital euro, while the rest would remain the same. Low holding limits (the Commission proposes €3,000) and the absence of interest would prevent a shift from bank deposits into central bank deposits (Bindseil, 2019).

Second, the digital euro introduces a European payment infrastructure as a public good. Currently, payments within the EU rely on infrastructures, many of which are situated and governed outside its borders. Nearly two-thirds of card payments in the euro area are handled by non-European companies, such as Visa or Mastercard, and many euro area countries have no domestic card scheme of their own. In particular, 15 euro area countries depend on international payment providers for in-store

transactions and eleven rely on them for both in-store and online payments (European Central Bank, 2025b). Domestic card schemes vary across countries: some provide debit cards only (Belgium, Germany and Malta), others offer debit and prepaid cards (Italy and Portugal), credit cards only (Slovenia) or the full range of card types (Bulgaria and France) (European Central Bank, 2025c). The introduction of a European *payment infrastructure* serves as a response to this structural weakness in Europe’s payments ecosystem, which remains nationally segmented and strongly reliant on foreign providers. Such reliance creates strategic vulnerabilities in a more fragmented and geopolitically contested global environment. Payment systems are not neutral, technical clearing mechanisms but institutional arrangements that embed power relations and jurisdictional authority. As Westermeier, (2024) argues, CBDCs materialize security concerns into infrastructural design choices. Complementing this perspective, recent empirical evidence shows that the major U.S. payment networks would be negatively affected by the introduction of a digital euro, while European payment firms gain to benefit. (Berg et al., 2024). The digital euro can therefore be understood as an attempt to strengthen European control – both by the ECB and by European payment providers – over critical payment infrastructure, enhancing resilience and reinforcing monetary sovereignty. India and Brazil have launched payment infrastructures similar in spirit to the planned digital euro, in both cases very successful with large adoption rates on both the merchant and the consumer side, and positive real effects (Aurazo et al., 2024).

Another part of the ECB’s work on CBDCs involves a workstream on the wholesale digital euro. Unlike retail CBDC, this form of central bank money already exists through traditional systems such as the Eurosystem’s TARGET services, which provide instant digital settlement of large-value payments and securities settlement in central bank reserves. Here, the evolving debate is about whether the money is delivered using new technologies rather than whether it should exist (Neuhaus & Plooi, 2023). A wholesale digital euro would represent central bank money available to regulated financial institutions for the settlement of interbank and financial market transactions, potentially on distributed ledger technology (DLT) platforms that enable direct settlements of payments and tokenized assets. The Eurosystem has already conducted exploratory trials and DLT-based settlement experiments to assess interoperability between new technologies and existing TARGET services, although no decision on full-scale implementation has been taken.⁴ It could facilitate programmable settlement and improve cross-

⁴ The Eurosystem conducted exploratory trials and experiments to test DLT-based wholesale settlement in central bank money between May and November 2024, settling nearly €1.6 billion and involving 64 participants (European Central Bank, 2025a), and in February 2025 the ECB Governing Council decided to expand the initiative toward practical interoperability with TARGET Services, although no full-scale implementation has been launched to date (European Central Bank, 2025d).

border efficiency, addressing well-documented frictions in correspondent banking networks such as cost, opacity and operational complexity (Illes et al., 2025).

The geoeconomic dimension becomes particularly salient in cross-border settings. Current international payments rely heavily on correspondent banking chains and the SWIFT messaging system, infrastructures that reflect concentrated governance structures and have, recently been implicated in geopolitical leverage (Nölke, 2022). In this context, the BIS launched initiatives on wholesale CBDCs such as Project Jura and Project mBridge, which can be understood not merely as technological upgrades but as experiments in reconfiguring the architecture of cross-border settlement. The projects demonstrate how cross-jurisdictional transactions could be executed with fewer intermediaries and reduced dependence on established correspondent networks. (BIS Innovation Hub, 2021, 2023). While such platforms do not eliminate network effects or existing currency hierarchies, they illustrate how wholesale CBDCs could diversify the backbone of global settlement infrastructures and thereby contribute to greater resilience and strategic autonomy in the evolving geoeconomics of payment systems.

III. Challenges to the digital euro: stablecoins and private payment systems

In 2025, two developments have questioned the need for CBDCs in general and the digital euro in particular. First, the rapid growth of stablecoins, particularly under supportive US regulation and the corresponding elimination of the Fed CBDC project, and second, the emergence of a private pan-European payment system, operated by private banks and payment providers under the umbrella of the European Payment Initiative (EPI). This has raised concerns whether a digital euro would not offer any additional value but would displace private innovation. This section evaluates both alternatives along three dimensions: usability and scale, competition and innovation, and European sovereignty.

From the outside, stablecoins feature many similarities with CBDCs: Both are a form of digital money and challenge the status quo of electronic payment systems operated by payment providers such as Visa and Mastercard. While CBDCs are the liability of central banks, stablecoins are issued by private actors and, in their most prominent form, backed by short-maturity sovereign bonds (Farina et al., 2026). From an EU sovereignty perspective, three arguments speak against stablecoins as a substitute for the digital euro, particularly as they are pegged to the US-Dollar.

First, the usability for European retailers and companies is limited, as European firms and households operate in euros, at least for transactions within the EU. The spread of US dollar-denominated stablecoins would amplify existing exchange rate risks and would increase the EU's exposure to US monetary policy shocks and decisions. It is unclear whether governments and central banks would intervene to stabilize stablecoins if a crisis occurred. While government bonds make up the largest part

of reserve assets which guarantee the stability of stablecoins, they can also be backed by money market funds which are runnable (Cecchetti & Schoenholtz, 2025). Such a public backstop would be needed for liquidity purposes in tail risks events, effectively socializing risk while issuance remains private; the digital euro meanwhile would be backed by the central bank.

Second, stablecoins as a form of private money would likely lead to concentration and oligopoly. Payment systems are characterized by strong network effects and economies of scale. The co-existence of multiple issuers in early adoption phases could give way to a dominant platform which consolidates market power. The history of card networks and digital payment infrastructures which are dominated by a few players (Visa, Mastercard, Paypal) illustrates how “private” does not equal competition.

Finally, the strongest argument against stablecoins as a substitute for a CBDC concerns monetary and geopolitical sovereignty. US dollar-denominated stablecoins embed European retail and corporate users firmly within US fiscal and monetary policy as well as expose them to technology located and governed in the United States and neighboring countries. Replacing dependence on US based card systems with dependence on US-pegged stablecoins would do nothing to improve European strategic autonomy.

A second challenge arises from private initiatives for a genuine European payment system, namely the MoU between EPI and EuroPA which was signed on 2 February. The participating banks and payment providers plan to link existing account-to-account schemes through an interoperable hub which would clear the transactions between countries. According to the MoU, the current participants are able to connect 130 million citizens (who may, however, have additional bank accounts with institutions not covered by the MoU) in 13 countries. The timing of the MoU follows strong political backing for the digital euro and suggests an attempt to present a market-led functional equivalent to the digital euro before legislative decisions are finalized. The attempt to build a pan-European payment system is far from new and has only gained steam in the shadow of the public option with the digital euro. Several payment providers and banks who are now part of EuroPA were originally members of EPI but left in 2023. Correspondingly, representatives of the banking industry have been vocal critics of the digital euro project. Besides the question whether private actors would continue to work towards a pan-European solution, if the credible threat of a public option disappeared, a number of arguments show why such an agreement cannot be a replacement for the digital euro payment infrastructure.

First, it lacks legal certainty that the digital euro could provide, as interoperability between systems is not the same as infrastructure. Banks and payment providers could in the future decide to resign their membership of the initiatives and dispense links to the payment hub. The MoU is not a binding agreement; also, it cannot mandate the acceptance of Wero for online or in-store commercial

transactions. This could also lead to new forms of fragmentation if certain features and payment functions (e.g. smart contracts) are available only to a sub-set of households and firms because some banks and payment providers would not implement them. The implementation across countries may also be uneven.

Second, a hub governed by incumbent banks and national champions creates structural risks which may negatively affect innovation and market entry. Dominant members can shape and possibly prevent market access using both financial and non-financial restrictions. Payment infrastructures are well-known for having monopolistic tendencies which the owners of the infrastructure can exploit. Innovative companies such as FinTechs may not gain market access, while within-system innovation would depend on collective agreements between competitors.

Third, the hub ultimately fails to achieve the overarching goal of the digital euro, European payments sovereignty, as it leaves the control of infrastructure in the hands of private parties. While these are typically called “European” companies, ownership structures of traded companies can change over time. Non-European investors, such as large pension funds or sovereign wealth funds, may acquire partial or significant ownership of these actors in the future which would give them control over critical infrastructure. Instead of derisking European payment infrastructure from non-EU players, such a solution dependent on private banks may very well incorporate geopolitical risk again.

Overall, neither stablecoins nor the EPI/EuroPA hub replicate the core functions of the digital euro: universal acceptance, legal certainty, competitive neutrality, and sovereign control over settlement infrastructure. As a provocative counterfactual, suppose a consortium of private banks offered printing paper money: Would anyone argue the ECB should cease printing coins and banknotes? Presumably not, because private players face different incentives, and leaving the printing of paper money in private hands would either lead to fragmentation (with negative effects on usability and scale) or to monopoly power (with negative side effects on prices).

IV. The legislative landscape

In June 2023, the European Commission presented the digital euro package (European Commission, 2023), which includes the legislative proposal establishing the legal framework for a possible digital euro and a legislative proposal on the legal tender of euro cash.⁵ In October 2023, the ECB launched the preparation phase of the digital euro project and in 2025 published three progress reports as well as a closing progress report on the preparation phase (European Central Bank, 2025b). During the preparation phase, the ECB refined the design of its CBDC, selected service providers, and evaluated the investment costs and financial stability implications. It also conceptualized the integration of the

⁵ For the full timeline of the legislation, see the legislative train: [Carriages preview | Legislative Train Schedule](#)

digital euro into the broader payment ecosystem. The Council of the EU has expressed its support for establishing a digital euro in a press statement in November 2025, after long negotiations between the member states (Council of the European Union, 2025).

At the same time, the digital euro project has become increasingly politicized, and not exclusively by anti-European and Euro-sceptic political forces, but by Members of the European Parliament (MEPs) in the European People Party (EPP), the largest parliamentary group, and from representatives of the banking sector. In the current composition, the vote of the centre-right EPP group decides the EP negotiation position, as centre-left and liberal groups are almost exclusively in favour, while the various far-right parties reject the project altogether. In December 2024, Stefan Berger from the German centre-right CDU quit as parliamentary rapporteur over criticism from centre-left and liberal MEPs that he would purposefully delay the legislative package. After the announcement of Fernando Navarrete from the Spanish centre-right Partido Popular as new rapporteur, the Committee on Economic and Monetary Affairs (ECON) in the European Parliament is currently debating several amendments proposed in the draft report by the rapporteur for the file and submitted in November 2025. (European Parliament, 2025) (see Table 1 for an outline for the main differences between the Commission proposal and the proposed amendments). While the Commission frames the digital euro primarily as a monetary instrument to preserve the role of central bank money and enhance efficiency and resilience, Navarrete proposes stronger conditionality and oversight. Most notably, he prioritizes the offline digital euro and amends to make the online version contingent on a demonstrated market failure in private European payment solutions. Only if the Commission and the ECB can prove that markets cannot provide a payment infrastructure, the public should interfere. He also suggests shifting the authority to set holding limits from the ECB to the Commission, thereby increasing political oversight over a key financial stability instrument. The Council's position remains closer to the Commission, supporting the project while largely preserving the ECB's operational role and avoiding strict market-failure conditionality. While Navarrete, like his predecessor, is an outspoken critic of the digital euro project since it went too far in its ambition, undermined market competition, and should only cover design features which cannot be provided by market participants, it is unclear whether there will be majority support for his amendments. In February 2026, MEPs approved two amendments to the Parliament's resolution on the ECB's 2025 annual report, calling for a digital euro that guarantees equal access to payment services and both online and offline use (European Parliament, 2026). This positioning could be seen as an early indication of the Parliament's sentiment, which differs from the rapporteur's position and supports the online digital euro. However, the actual

vote on the digital euro legislation is not scheduled to take place before May 2026.⁶ Following the vote, the trilogue between the EP, the Commission and the Council would start. Once the legislation has passed, the ECB will decide whether to proceed with the project and, if so, will be responsible for its implementation. A pilot phase could begin in 2027, with the first digital euros potentially being issued in 2029.

Table 1: Differences between Commission proposal and parliamentary amendments

<i>Issue</i>	<i>Commission proposal (2023)</i>	<i>Amendments of EP rapporteur (2025)</i>
<i>Strategic framing</i>	Digital euro as “monetary anchor” to “safeguard the role of central bank money” while promoting “innovation, competition and resilience”	Emphasize on “open strategic autonomy”, reducing dependence on “non-European payment solutions”, and strengthening European payment sovereignty
<i>Offline vs. online design</i>	Online and offline digital euro introduced in parallel	Offline prioritized; online conditional on lack of European private alternative
<i>Market failure test</i>	Not required	Required before launching online digital euro
<i>Holding limits</i>	ECB determines holding limits to safeguard financial stability	Commission sets limits via delegated acts; ECB provides analysis
<i>Institutional balance</i>	Greater operational discretion for ECB	Increased political oversight by Commission and Parliament
<i>Wholesale CBDC</i>	Not central in proposal	Explicitly prioritized as part of strategic autonomy agenda
<i>Fee structure</i>	ECB monitors and caps fees based on proportionality	Transitional period of 10 years; more detailed compensation model for intermediaries; clearer merchant fee structure
<i>Privacy and offline features</i>	High privacy standards; offline included	Stronger privacy emphasis

In response to opposition from the banking sector and to political negotiations which may lead to further delays and risk a weak legislative compromise, European academics have recently voiced their concerns in an open letter addressed to Members of Parliament in January 2026 (Sustainable Finance Lab, 2026). The letter emphasizes the importance of the project for European geoeconomic sovereignty and calls for a digital euro with both online and offline functionality, the highest possible privacy standards, universal access for all citizens, and sufficiently high holding limits.

⁶ At the parliamentary session on the ECB's annual report, which mentions the project, stating the introduction of a digital euro “is essential to strengthen the EU's monetary sovereignty” on February 10 2026, a large majority of 443 out of 631 MEPs voted in favour of the amendments (Reuters, 2026).

V. Recommendations and design choices

Europe's choice does not lie between "the digital euro" and "private innovation." Instead, European policymakers must choose between a future in which the EU's digital payments rely on infrastructures whose governance and standards are set elsewhere, or a future where Europe provides a public backbone that ensures universal access to central bank money and enables competitive private services on top. Market initiatives such as Wero or the growth of stablecoins are important developments, but they do not eliminate but complement the case for a digital euro. Payment infrastructures increasingly carry geopolitical and geoeconomic weight and Europe needs a credible and robust payment infrastructure to retain monetary sovereignty, infrastructure security, and citizens' access to public money. Seen in this light, the digital euro is as a strategic infrastructure, and not merely a new payment instrument. Its role is to provide a stable European standard for digital payments that reduces fragmentation and creates a trusted platform on which private innovation, such as programmable payments and smart-contract-based services, can develop. In light of this, the next steps as well as the design choices should be clear:

- (1) **Overcome state-market dichotomy in the design of the digital euro:** European policymakers must reject the false pretense that the decision for the digital euro favours state intervention over market forces. Payments infrastructure is a critical infrastructure and only a strong digital euro, available online and offline, can provide the highest level of strategic autonomy. The digital euro needs to be designed as a public-private partnership, with the ECB designing the core part of the economy, but interactions with the digital euro infrastructure and merchants/households being left to private players. Such a public-private partnership can achieve usability and scale, while also fostering innovation and competition.
- (2) **Reject private alternatives as substitute for the digital euro:** Accordingly, initiatives by private European banks and payment providers to form a pan-European payment solution do not offer the same functionalities as the digital euro. Neither do stablecoins. Without public infrastructure, they would lead to persistent fragmentation within the EU, negatively affecting usability or scale, or monopoly power with negative effects on prices and innovation. Private solutions are also prone to outside influence by non-European shareholders, undermining strategic autonomy.
- (3) **Do not waste any more time in legislation:** Prolonged delays risk weakening Europe's position in the evolving global payments landscape and would frustrate any ambition for financial autonomy. MEPs should decide on their negotiation position in May 2026 with the realistic ambition for an inter-institutional agreement later that year and the start of the implementation phase in 2027.

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